



CIHR IRSC

Canadian Institutes of Health Research Instituts de recherche
en santé du Canada

Discoveries for life / Découvertes pour la vie

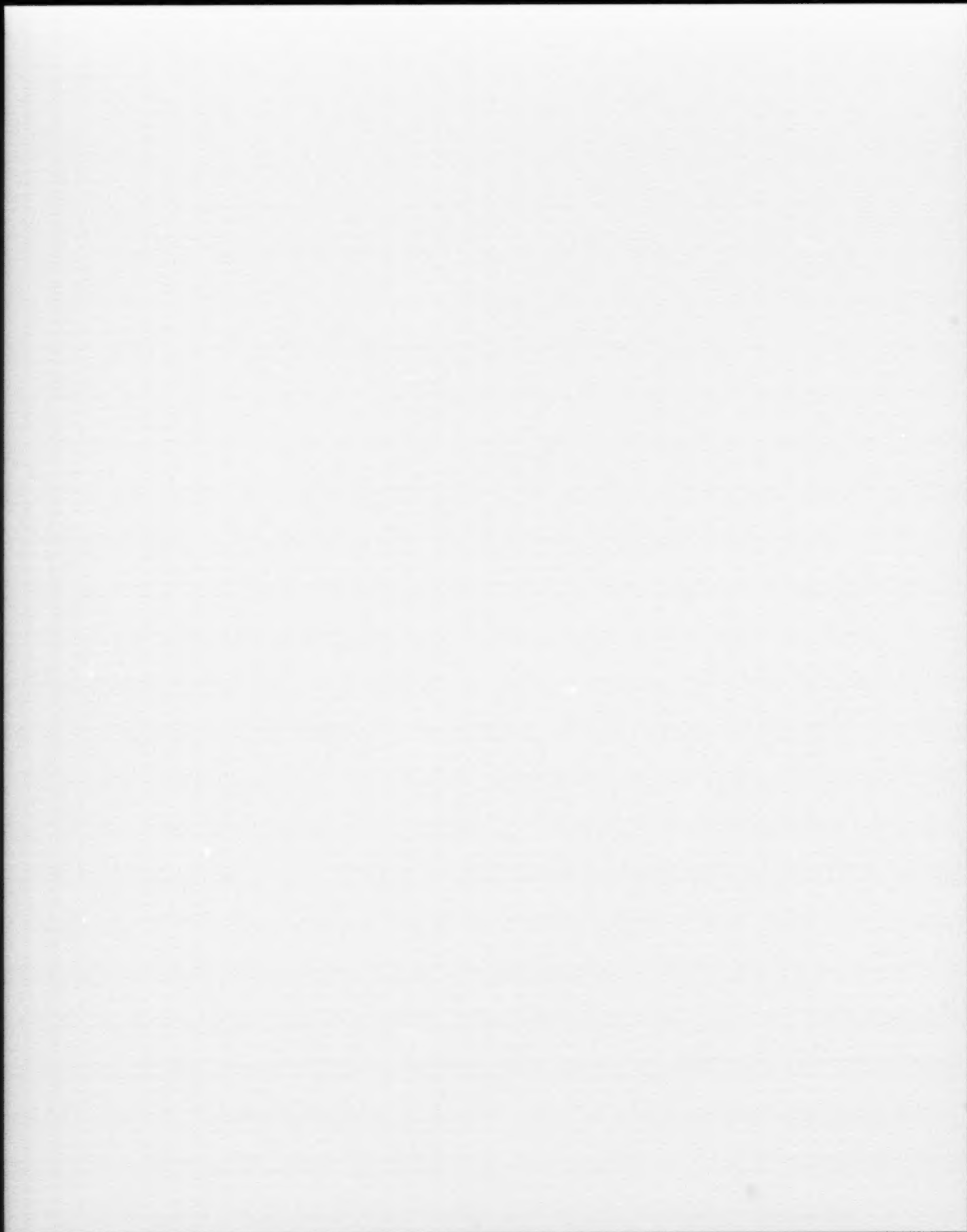
Canadian Institutes of Health Research

Annual Report 2017–18



Canadian Institutes
of Health Research Instituts de recherche
en santé du Canada

Canada 



CANADIAN INSTITUTES OF HEALTH RESEARCH
ANNUAL REPORT 2017-18

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PRESIDENT'S MESSAGE



DR. RODERICK R. MCINNES
ACTING PRESIDENT OF THE
CANADIAN INSTITUTES
OF HEALTH RESEARCH

ON BEHALF OF THE GOVERNING COUNCIL, I AM PLEASED TO PRESENT THE 2017-18 ANNUAL REPORT OF THE CANADIAN INSTITUTES OF HEALTH RESEARCH (CIHR).

It has been my honour this year to serve as CIHR Acting President. We have made great headway in strengthening our relationship with Canada's vibrant research community. We have also worked closely this year with our federal colleagues on advancing the government's science agenda and implementing some of the recommendations from Canada's Fundamental Science Review, such as the creation of the Canadian Research Coordinating Committee.

As the Government of Canada's health research funding agency, CIHR plays a leading role in supporting new scientific knowledge and enabling its translation into improved health, more effective health services and products, and a strengthened Canadian health care system. Over the last year, we have worked closely with the health research community, seeking the advice of its members on how we can better achieve this vision. With the community's support, we have made enhancements to the process by which research grant applications are funded and adjudicated. For example, face-to-face peer-review panels were restored, and the response from the research community has been enthusiastic. These improvements will ensure that we are fostering the highest standards of excellence in health research for years to come.

This past year, CIHR has also made progress in implementing the Government of Canada's commitment to using Gender-Based Analysis Plus (GBA+) to develop

effective policies and programs. We have continued to implement our 2016-17 Sex- and Gender-Based Analysis (SGBA) in Research Action Plan by increasing awareness among the research community of the importance and use of SGBA in research design and by embedding SGBA requirements into our own programming. Equity and diversity in the research system has been shown to lead to more creativity, more innovation, and more meaningful research outcomes. Embedding SGBA in health research will ensure better science and research outcomes benefit all Canadians.

Similarly, CIHR has made great progress in building up the next generation of leaders. Health research trainees are critical to spurring innovation in the health care system. This year, we unveiled a new vision for Canada's health research trainees – that they would emerge from their training as scientific, professional, or organizational leaders within and beyond the health research enterprise. We released tools to better equip trainees for success in a rapidly evolving environment of advancing technologies and to access broader professional skill sets. For example, we launched the Early Career Researchers Observer program to help new researchers learn more about the importance of a strong peer review process. Additionally, we ramped up awareness and use of a new career development tool to best prepare trainees for leadership roles in the Canadian economy. These opportunities were greeted with great enthusiasm by early career and senior researchers alike. It is hoped that such initiatives will develop this diverse and dynamic cadre of highly-qualified personnel into the leaders of tomorrow.

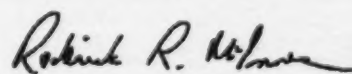
This past year saw marked growth in how we develop capacity for Indigenous health research. CIHR has worked closely with Indigenous communities and the Advisory Board for its Institute of Indigenous Peoples Health to develop two new initiatives. CIHR announced the Network Environment for Indigenous Health Research (NEIHR) – a 15-year initiative with a total investment of \$89.4M. Providing a solid foundation for Indigenous health research driven by, and grounded in, Indigenous communities across Canada, the NEIHR initiative will ensure that CIHR's research capacity-building and training efforts are based upon the priorities and values of Indigenous communities. We also announced the Indigenous Mentorship Network Program which aims to support the next generation of Indigenous health researchers by providing distinctive learning opportunities and specially tailored mentoring activities to Indigenous students at the undergraduate, master's, doctoral and post-doctoral levels, as well as Indigenous researchers in the beginning phase of their careers. These two initiatives are moving the marker on our 2016 Action Plan: Building a healthier future for First Nations, Inuit and Métis peoples.

We have seen a renewal of our Governing Council and welcomed several new Scientific Directors to the organization. The upcoming implementation of the recommendations from an *Internal Audit of Corporate Governance* as well as an amendment to the *CIHR Act* to separate the role of President of CIHR and that of Chair of Governing Council will help modernize governance at CIHR, in alignment with recommendations from Canada's Fundamental Science Review. Ensuring responsible governance and stewardship is firmly rooted in our commitment to continuous improvement and accountability to Canadians.

The coming year will be pivotal for CIHR as it enters the final year in its strategic plan, *Health Research Roadmap II: Capturing Innovation to Produce Better Health and Health Care*, and begins to look towards the future. New leadership, both in its executive management and its governing board, will bring fresh ideas and a new lens to the organization. Many of its achievements and goals will be highlighted more fulsomely in the *Departmental Results Report* and *Departmental Plan*, respectively.

I invite you to read the financial details of this report to learn more about CIHR's investments in strengthening Canada's health care system and improving the health of Canadians.

Allow me to close by expressing my gratitude to the vibrant community we serve and the entire CIHR staff whose dedication allows Canada's health research enterprise to flourish.



Roderick R. McInnes, C.M., O.Ont., MD, PhD, FRSC

Acting President, Canadian Institutes of Health Research

Financial Statement Discussion and Analysis

Introduction

The following Financial Statement Discussion and Analysis (FSD&A) should be read in conjunction with the Canadian Institutes of Health Research (CIHR) audited financial statements and accompanying notes for the year ended March 31, 2018.

The responsibility for the integrity and objectivity of the FSD&A rests with the management of CIHR. The purpose of the FSD&A is to highlight information and provide explanations to enhance the user's understanding of CIHR's financial position and results of operations, while demonstrating CIHR's accountability for its resources. Additional information on CIHR's performance is available in the *CIHR Departmental Results Report*, and information on its plans and priorities is available in the *CIHR Department Plan*.

Overview

The Canadian Institutes of Health Research was established in June 2000 under the *Canadian Institutes of Health Research Act*. It is listed in Schedule II to the *Financial Administration Act* as a departmental corporation. CIHR's objective is to excel, according to international standards of scientific excellence, in the creation of new knowledge, and its translation into improved health, more effective health services and products, and a strengthened Canadian health care system.

CIHR's budget is allocated through authorities approved by Parliament. CIHR has separate voted authorities for operating expenses and for grants. Authorities provided to CIHR by Parliament do not parallel financial reporting according to Canadian public sector accounting standards, since authorities are primarily based on cash accounting principles. Consequently, items recognized in the Statement of Financial Position, the Statement of Operations and Departmental Net Financial Position, the Statement of Change in Departmental Net Debt, and the Statement of Cash Flows are not necessarily the same as those provided through authorities from Parliament. Note 3 of the Financial Statements provides users with a reconciliation between the two bases of reporting.

Highlights

As evidenced below, CIHR's financial results in 2017-18 are consistent with those of the preceding fiscal year.

1. Statement of Financial Position

<i>Condensed Statement of Financial Position (in millions of dollars)</i>				
As at March 31	% Change		2018	2017
Total liabilities	5.1%		\$ 14.3	\$ 13.6
Total financial and non-financial assets	0%		\$ 19.7	\$ 19.7

The slight increase in total liabilities of \$0.7 million is primarily due to a large grant payable at year-end as well as increased payables owing to other government departments of \$1.8 million. These increases were offset by a decrease in deferred revenue of \$1.1 million.

The balance in total financial and non-financial assets remained steady year over year. There was a \$0.5 million increase in tangible capital assets as a result of the capitalization of internally developed software and a \$0.7 million increase in due from the consolidated revenue fund. These increases were offset by a decrease of \$1.2 million in accounts receivable and advances mainly due to grant refunds owing at year-end 2016-17.

2. Statement of Operations and Departmental Net Financial Position

<i>Condensed Statement of Operations and Departmental Net Financial Position (in millions of dollars)</i>				
For the year ended March 31	% Change		2018	2017
Total expenses	1.4%		\$ 1,102.9	\$ 1,088.1
Net cost of operations before government funding and transfers	1.7%		\$ 1,099.5	\$ 1,081.3

The slight increase in both Total expenses (1.4%) and in Net cost of operations before government funding and transfers (1.7%) are attributable to increased Parliamentary authorities provided to CIHR by the Government of Canada of \$15.2 million (1.4%), as compared to the prior fiscal year.

3. Variance Analysis

3.1. Variances between current year actual results and budget

As noted earlier, CIHR is funded by the Government of Canada through Parliamentary authorities. In 2017–18, CIHR's Parliamentary authorities increased by \$12.8 million throughout the year via Supplementary Estimates and other adjustments, as follows:

2017–18 Main Estimates (in millions of dollars)	\$ 1,085.6
Budget 2017*	4.8
Centres of Excellence for Commercialization and Research	2.7
Treasury Board Secretariat (TBS) salary reimbursements	2.1
Net transfers from other government departments	1.5
2016–17 Operating budget carry-forward	1.7
Total increase in Parliamentary authorities	12.8
2017–18 Year-end Parliamentary authorities	\$1,098.4

* Budget 2017 includes authorities received for the Climate Change and Health Research Initiative, the Canadian Drugs and Substances Strategy, and the Canada 150 Research Chairs program.

CIHR's 2017–18 year-end Parliamentary authorities of \$1,098.4 million represent an increase of \$15.2 million (or 1.4%), as compared to CIHR's year-end authorities in 2016–17 (\$1,083.2 million). This increase is a key factor to note when comparing current year and prior year results for CIHR.

3.2 Variances between current year actual results and prior year actual results

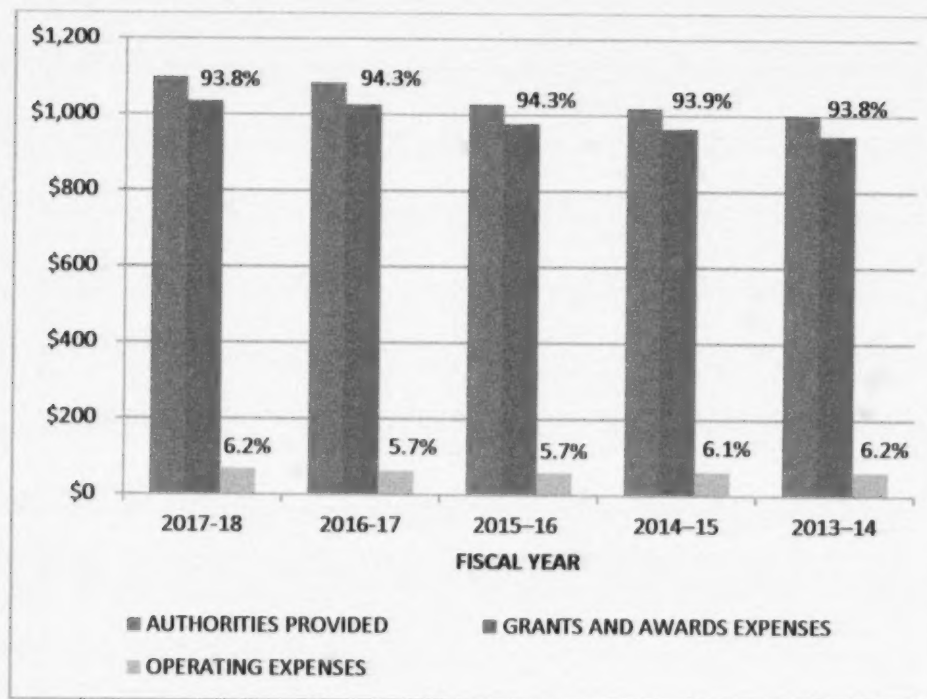
See Note 12 (Segmented Information) of Audited Financial Statements (in millions of dollars)				
For the year ended March 31	% Change		2018	2017
Grants and awards	0.7%		\$ 1,038.8	\$ 1,031.1
Total operating expenses	10.3%		\$ 68.5	\$ 62.1

Grants and awards expenses increased by 0.7% (or \$7.7 million) in 2017–18 due to increased Parliamentary appropriations provided to CIHR for grants (as outlined in section 3.1). Total operating expenses also increased by 10.3% (\$6.4 million) over the previous year. This increase was mainly due to an increase in salaries and employee benefits resulting from 35 additional full-time equivalent (FTE) positions and a 3% increase to salary ranges in 2017–18. Travel expenditures increased as a result of the return to face-to-face peer review meetings and amortization expense increased due to higher capital asset acquisitions over the past few years. These increases were offset by a decrease to furniture, equipment, and software resulting from the construction of the new contact centre, which was completed in 2016–17.

4. Trend Analysis

4.1 Grants and Awards Expenses

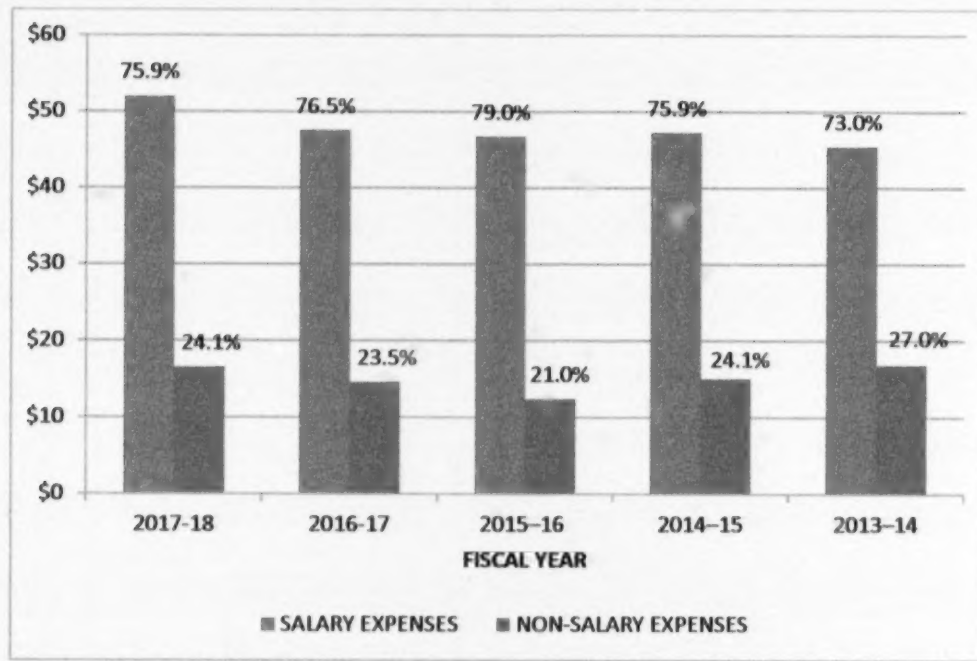
(in millions of dollars)



- As evidenced by the above chart, grants and awards expenses increase or decrease on a yearly basis in relative proportion to changes in the Parliamentary authorities provided to CIHR by the Government of Canada.
- In 2017-18, grants and awards expenses made up 93.8% of total expenses, as compared to 94.3% in 2016-17.

4.2 Operating Expenses

(in millions of dollars)



- Salary and employee benefit expenses increased by \$4.6 million (or 9.6%) in 2017-18.
- In 2017-18, salaries and employee benefits made up 75.9% of total operating expenses, as compared to 76.5% in the prior year.
- Total operating expenses incurred were higher than those incurred in 2016-17.
- The ratio of operating expenses to total expenses was 6.2% in 2017-18, as compared to 5.7% in 2016-17.

Financial Outlook – 2018–19

In Budget 2018, the Government proposed a historic investment for fundamental research provided to the three granting councils (CIHR, the Natural Sciences and Engineering Research Council, and the Social Sciences and Humanities Research Council). As a result, CIHR was allocated \$354.7 million over five years, starting in 2018–19, and \$90.1 million per year ongoing, to support health researchers at post-secondary institutions and research hospitals across Canada.

To accelerate Canada's transition to a more modern approach to research, Budget 2018 proposed to create a new tri-council fund to support research that is international, interdisciplinary, fast-breaking, and higher-risk. The fund would comprise an investment of \$275.0 million over five years, starting in 2018–19, and \$65.0 million per year ongoing. Funding allocated to CIHR would be determined following the first competition of this fund.

To attract and retain leading early-career researchers at post-secondary institutions across Canada, Budget 2018 also proposed a new investment for CIHR of \$82.0 million over five years, starting in 2018–19, and \$19.0 million per year ongoing, for the Canada Research Chairs Program. The purpose of this investment would be to better support early-career researchers, while increasing diversity among nominated researchers, including increasing the number of women who are nominated for Canada Research Chairs. Starting in 2018–19, CIHR may also receive a further increase related to the redistribution of the number of Canada Research Chairs between the three granting councils.

To increase our understanding of post-traumatic stress injuries among public safety officers, Budget 2018 proposed an investment of \$3.0 million per year for CIHR over the next five years, beginning in 2018–19. This funding would support a new national research consortium to address the incidence of post-traumatic stress injuries among public safety officers.

Financial Statements

Canadian Institutes of Health Research

Statement of Management Responsibility Including Internal Control over Financial Reporting

Responsibility for the integrity and objectivity of the accompanying financial statements for the year ended March 31, 2018, and all information contained in these statements rests with the management of the Canadian Institutes of Health Research (CIHR). These financial statements have been prepared by management using the Government's accounting policies, which are based on Canadian public sector accounting standards.

Management is responsible for the integrity and objectivity of the information in these financial statements. Some of the information in the financial statements is based on management's best estimates and judgment, and gives due consideration to materiality. To fulfill its accounting and reporting responsibilities, management maintains a set of accounts that provides a centralized record of CIHR's financial transactions. Financial information submitted in the preparation of the Public Accounts of Canada, and included in CIHR's *Departmental Results Report*, will be consistent with these financial statements.

Management is also responsible for maintaining an effective system of internal control over financial reporting (ICFR) designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are properly authorized and recorded in accordance with the *Financial Administration Act* and other applicable legislation, regulations, authorities and policies.

Management seeks to ensure the objectivity and integrity of data in its financial statements through careful selection, training, and development of qualified staff; through organizational arrangements that provide appropriate divisions of responsibility; through communication programs aimed at ensuring that regulations, policies, standards and managerial authorities are understood throughout CIHR; and through conducting an annual risk-based assessment of the effectiveness of the system of ICFR.

The system of ICFR is designed to mitigate risks to a reasonable level based on an ongoing process to identify key risks, to assess effectiveness of associated key controls, and to make any necessary adjustments.

A risk-based assessment of the system of ICFR for the year ended March 31, 2018 was completed in accordance with the Treasury Board *Policy on Internal Control* and the results and action plans are summarized in the [annex](#).¹

The effectiveness and adequacy of CIHR's system of internal control is reviewed by the work of internal audit staff under the auspices of the Chief Audit Executive, who conducts periodic assessments of different areas of CIHR's operations, and reviewed by CIHR's Audit Committee, which oversees management's responsibilities for maintaining adequate control systems and the quality of financial reporting, and which recommends the financial statements to the President of CIHR and its Governing Council.

Ernst & Young LLP, the independent auditor for CIHR, has expressed an opinion on the fair presentation of the financial statements of CIHR which does not include an audit opinion on the annual assessment of the effectiveness of CIHR's internal controls over financial reporting.

Approved by:



Roderick R. McInnes, C.M., O.Ont., MD, PhD, FRSC
Acting President



Thérèse Roy, FCPA, FCA (Quebec)
Chief Financial Officer
Vice-President, Resource Planning and Management

Ottawa, Canada
June 20, 2018

¹ Summary of the Assessment of Effectiveness of the Systems of Internal Control over Financial Reporting and the Action Plan of the Canadian Institutes of Health Research for the Fiscal Year 2017-18 (Unaudited).

INDEPENDENT AUDITORS' REPORT

To the members of the Governing Council
Canadian Institutes of Health Research

We have audited the accompanying financial statements of the **Canadian Institutes of Health Research**, which comprise the statement of financial position as at March 31, 2018, and the statements of operations and departmental net financial position, of change in departmental net debt and of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the **Canadian Institutes of Health Research** as at March 31, 2018, and the results of its operations, changes in net debt, and cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Ernst + Young LLP

Ottawa, Canada,
June 20, 2018

Chartered Professional Accountants
Licensed Public Accountants



A member firm of Ernst & Young Global Limited

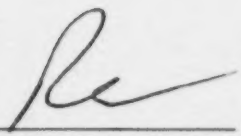
Canadian Institutes of Health Research
Statement of Financial Position
As at March 31
(in thousands of dollars)

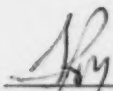
	<u>2018</u>	<u>2017</u>
Liabilities		
Accounts payable and accrued liabilities (note 4)	\$ 8,029	\$ 6,240
Vacation pay and compensatory leave	2,613	2,425
Deferred revenue (note 5)	2,899	4,013
Employee future benefits (note 6)	740	885
Total liabilities	<u>14,281</u>	<u>13,563</u>
Financial assets		
Due from the Consolidated Revenue Fund	10,924	10,249
Accounts receivable and advances (note 7)	1,168	2,387
Total financial assets	<u>12,092</u>	<u>12,636</u>
Departmental net debt	<u>2,189</u>	<u>927</u>
Non-financial assets		
Prepaid expenses	555	497
Tangible capital assets (note 8)	7,053	6,549
Total non-financial assets	<u>7,608</u>	<u>7,046</u>
Departmental net financial position	<u><u>\$ 5,419</u></u>	<u><u>\$ 6,119</u></u>

Contractual obligations (note 9)
Contingent liabilities (note 10)

The accompanying notes form an integral part of these financial statements.

Approved by:


Roderick R. McInnes, C.M., O.Ont., MD, PhD, FRSC
Acting President


Thérèse Roy, FCPA, FCA (Quebec)
Chief Financial Officer
Vice-President, Resource Planning and Management

Ottawa, Canada
June 20, 2018

Canadian Institutes of Health Research
Statement of Operations and Departmental Net Financial Position
For the Year Ended March 31
(in thousands of dollars)

	2018 Planned Results (note 2)	2018	2017
Expenses			
Investigator-Initiated Health Research	\$ 729,496	\$ 723,245	\$ 709,099
Priority-Driven Health Research	337,932	347,729	345,327
Internal Services	31,327	31,952	33,711
Total expenses	1,098,755	1,102,926	1,088,137
Revenues			
Investigator-Initiated Health Research	190	507	285
Priority-Driven Health Research	7,354	2,895	6,579
Total revenues	7,544	3,402	6,864
Net cost of operations before government funding and transfers	\$ 1,091,211	\$ 1,099,524	\$ 1,081,273
Government funding and transfers			
Net cash provided by Government		\$ 1,090,506	\$ 1,078,200
Change in Due from the Consolidated Revenue Fund		675	(174)
Services provided without charge by other government departments (note 11)		7,643	7,391
Net cost of operations after government funding and transfers		700	(4,144)
Departmental net financial position – beginning of year		6,119	1,975
Departmental net financial position – end of year		\$ 5,419	\$ 6,119

Segmented information (note 12)

The accompanying notes form an integral part of these financial statements.

Canadian Institutes of Health Research
Statement of Change in Departmental Net Debt
For the Year Ended March 31
(in thousands of dollars)

	<u>2018</u>	<u>2017</u>
Net cost of operations after government funding and transfers	\$ 700	\$ (4,144)
Change due to tangible capital assets		
Acquisition of tangible capital assets	1,762	2,827
Amortization of tangible capital assets	(1,258)	(838)
Loss on disposal of capital assets	-	(5)
Total change due to tangible capital assets	504	1,984
Change due to prepaid expenses	58	83
Net increase (decrease) in departmental net debt	1,262	(2,077)
Departmental net debt – beginning of year	927	3,004
Departmental net debt – end of year	<u>\$ 2,189</u>	<u>\$ 927</u>

The accompanying notes form an integral part of these financial statements.

Canadian Institutes of Health Research
Statement of Cash Flows
For the Year Ended March 31
(in thousands of dollars)

	<u>2018</u>	<u>2017</u>
Operating activities		
Net cost of operations before government funding and transfers	\$ 1,099,524	\$ 1,081,273
Non-cash items:		
Amortization of tangible capital assets	(1,258)	(838)
Services provided without charge by other government departments (note 11)	(7,643)	(7,391)
Loss on disposal of capital assets	-	(5)
Variations in Statement of Financial Position:		
Increase (decrease) in accounts receivable and advances	(1,219)	1,765
Increase in prepaid expenses	58	83
Increase in accounts payable and accrued liabilities	(1,789)	(1,089)
Decrease (increase) in vacation pay and compensatory leave	(188)	124
Decrease in deferred revenue	1,114	1,263
Decrease in future employee benefits	145	188
Cash used in operating activities	<u>1,088,744</u>	<u>1,075,373</u>
Capital activities		
Acquisitions of tangible capital assets	1,762	2,827
Cash used in capital activities	<u>1,762</u>	<u>2,827</u>
Net cash provided by Government of Canada	<u><u>\$ 1,090,506</u></u>	<u><u>\$ 1,078,200</u></u>

The accompanying notes form an integral part of these financial statements.

1. Authority and Objectives

The Canadian Institutes of Health Research (CIHR) was established in June 2000 under the *Canadian Institutes of Health Research Act*, replacing the former Medical Research Council of Canada. It is listed in Schedule II to the *Financial Administration Act* as a departmental corporation.

CIHR's objective is to excel, according to international standards of scientific excellence, in the creation of new knowledge, and its translation into improved health, more effective health services and products, and a strengthened Canadian health care system. CIHR's strategic outcome is as follows: Canada is a world leader in the creation, dissemination and application of health research knowledge. The strategic outcome is achieved based on two programs. The first program is Investigator-Initiated Health Research, to develop and support a well-trained base of world-class health researchers and trainees conducting research across all aspects of health, including biomedical research, clinical research, research respecting health systems, health services, the health of populations, societal and cultural dimensions of health and environmental influences on health, and other research as required. The goal of the Investigator-Initiated Health Research program is to advance health knowledge and to apply this knowledge in order to improve health systems and/or health outcomes. The second program is Priority-Driven Health Research, which provides funding to researchers for emergent and targeted research that responds to the changing health needs and priorities of Canadians across all aspects of health, including biomedical research, clinical research, research respecting health systems, health services, the health of populations, societal and cultural dimensions of health and environmental influences on health, and other research as required. The goal of the Priority-Driven Health Research program is to advance health knowledge and its application, in specific areas of research identified by CIHR in consultation with other government departments, partners and stakeholders, in order to improve health systems and/or health outcomes in these priority areas.

CIHR is led by a President who is the Chairperson of a Governing Council of not more than eighteen members appointed by the Governor in Council. The Governing Council sets overall strategic direction, goals and policies and oversees programming, resource allocation, ethics, finances, planning and accountability.

CIHR has thirteen institutes that focus on identifying the research needs and priorities for specific health areas, or for specific populations, then developing strategic initiatives to address those needs. Each Institute is led by a Scientific Director who is guided by an Institute Advisory Board, which strives to include representation of the public, researcher communities, research funders, health professionals, health policy specialists and other users of research results.

CIHR's grants, awards and operating expenditures are funded by budgetary authorities. Employee benefits are funded by statutory authorities.

2. Summary of Significant Accounting Policies

These financial statements have been prepared using the Government's accounting policies stated below, which are based on Canadian public sector accounting standards. The presentation and results using the stated accounting policies do not result in any significant differences from Canadian public sector accounting standards.

Significant accounting policies are as follows:

- (a) **Parliamentary authorities** – CIHR is financed by the Government of Canada through Parliamentary authorities. Financial reporting of authorities provided to CIHR does not parallel financial reporting according to generally accepted accounting principles since authorities are primarily based on cash flow requirements. Consequently, items recognized in the Statement of Operations and Departmental Net Financial Position and the Statement of Financial Position are not necessarily the same as those provided through authorities from Parliament. Note 3 provides a reconciliation between the bases of reporting. The planned results amounts in the "Expenses" and "Revenues" sections of the Statement of Operations and Departmental Net Financial Position are the amounts reported in the Future-oriented Statement of Operations (unaudited) included in the *2017-18 Departmental Plan*. Planned results are not presented in the "Government funding and transfers" section of the Statement of Operations and Departmental Net Financial Position and in the Statement of Change in Departmental Net Debt because these amounts were not included in the *2017-18 Departmental Plan*.

(b) Net cash provided by Government – CIHR operates within the Consolidated Revenue Fund (CRF), which is administered by the Receiver General for Canada. All cash received by CIHR is deposited to the CRF and all cash disbursements made by CIHR are paid from the CRF. The net cash provided by Government is the difference between all cash receipts and all cash disbursements, including transactions between departments of the Government.

(c) Amounts due from the CRF are the result of timing differences at year-end between when a transaction affects authorities and when it is processed through the CRF. Amounts due from the CRF represent the net amount of cash that CIHR is entitled to draw from the CRF without further authorities to discharge its liabilities.

(d) Revenues

- Funds received from external parties for specified purposes are recorded upon receipt as deferred revenue. These revenues are recognized in the period in which the related expenses are incurred.
- Funds that have been received are recorded as deferred revenue, provided CIHR has an obligation to other parties for the provision of goods, services, or the use of assets in the future.
- Other revenues are accounted for in the period in which the underlying transaction or event that gave rise to the revenue takes place.

(e) Expenses – Expenses are recorded on the accrual basis:

- Grants and awards (transfer payments) are recorded as expenses when authorization for the payment exists and the recipient has met the eligibility criteria or the entitlements established for the transfer payment program. In situations where payments do not form part of an existing program, transfer payments are recorded as expenses when the Government announces a decision to make a non-recurring transfer, provided the enabling legislation or authorization for payment receives parliamentary approval prior to the completion of the financial statements.
- Vacation pay and compensatory leave are accrued as the benefits are earned by employees under their respective terms of employment.
- Services provided without charge by other government departments for accommodation and employer contributions to the health and dental insurance plans are recorded as operating expenses at their estimated cost.

(f) Refunds of previous years' expenses – These amounts include the return of grants and awards funds to CIHR in the current fiscal year for expenses incurred in previous fiscal years due to cancellations, refunds of previous years' expenses related to goods or services, and adjustments of previous years' accounts payable. These refunds and adjustments are presented against the related expenses in the financial statements but are recorded as revenue in accordance with accounting policies and therefore are excluded when determining current year authorities used.

(g) Employee future benefits

- Pension benefits: Eligible employees participate in the Public Service Pension Plan (the Plan), a multiemployer defined benefit pension plan administered by the Government. CIHR's contributions to the Plan are charged to expenses in the year incurred and represent the total departmental obligation to the Plan. CIHR's responsibility with regard to the Plan is limited to its contributions. Actuarial surpluses or deficiencies are recognized in the financial statements of the Government of Canada, as the Plan's sponsor.
- Severance benefits – CIHR executives and non-represented employees: Prior to October 2, 2011, CIHR executives and non-represented employees were entitled to severance benefits under labour contracts or conditions of employment for voluntary and involuntary departures. These benefits were accrued as employees rendered the services necessary to earn them. Effective October 2, 2011, CIHR non-represented employees and executives were no longer eligible to accrue severance benefits for voluntary departures (e.g. resignation and retirement). Employees were provided with three options in relation to the severance termination provisions, such as the immediate payout of the accumulated weeks of severance at their current rate of pay, retain the accumulated weeks of severance with a payout upon termination of employment with CIHR or retirement at their exit rate of pay, or a combination thereof. These changes have been reflected in the calculation of the outstanding severance benefit obligation. Severance benefits continue to accrue for involuntary departures, however, benefits payable would be reduced by the severance termination option exercised for service up to and including October 1, 2011, should an involuntary departure occur.

(h) **Accounts receivable and advances** are stated at the lower of cost and net recoverable value. A valuation allowance is recorded for receivables and advances where recovery is considered uncertain.

(i) **Contingent liabilities** – Contingent liabilities are potential liabilities that may become actual liabilities when one or more future events occur or fail to occur. To the extent that the future event is likely to occur or fail to occur, and a reasonable estimate of the loss can be made, an estimated liability is accrued and an expense recorded. If the likelihood is not determinable or an amount cannot be reasonably estimated, the contingency is disclosed in the notes to the financial statements.

(j) **Tangible capital assets** – All tangible capital assets having an individual initial cost of \$5,000 or more are recorded at their acquisition cost.

Amortization of tangible capital assets is done on a straight-line basis over the estimated useful life of the capital asset as follows:

Asset class	Amortization period
Informatics hardware	3–5 years
Informatics software	3–10 years
Office equipment	10 years
Vehicles	5 years

Assets under construction are recorded in the applicable capital asset class in the year that they become available for use and are not amortized until they become available for use.

(k) **Measurement uncertainty** – The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses reported in the financial statements. At the time of preparation of these statements, management believes the estimates and assumptions to be reasonable. The most significant items where estimates are used are contingent liabilities, the liability for employee future benefits and the useful life of tangible capital assets. Actual results could significantly differ from those estimated. Management's estimates are reviewed periodically and, as adjustments become necessary, they are recorded in the financial statements in the year they become known.

(l) **Adoption of new accounting standards** – The Public Sector Accounting Board (PSAB) issued new accounting standards effective for fiscal years beginning on or after April 1, 2017. CIHR adopted the new accounting standards Related party disclosures (PS 2200), Contingent assets (PS 3320), Contractual rights (PS 3380), and Inter-entity transactions (PS 3420). These new accounting standards only impact note disclosures. The adoption of PS 2200, PS 3320, PS 3380, and PS 3420 did not result in a significant impact on the disclosures included in CIHR's financial statements.

3. Parliamentary Authorities

CIHR receives most of its funding through annual Parliamentary authorities. Items recognized in the Statement of Operations and Departmental Net Financial Position and the Statement of Financial Position in one year may be funded through Parliamentary authorities in prior, current or future years. Accordingly, CIHR has different net results of operations for the year on a government funding basis than on an accrual accounting basis. The differences are reconciled in the following tables:

(a) Reconciliation of net cost of operations to current year authorities used

(in thousands of dollars)

	<u>2018</u>	<u>2017</u>
Net cost of operations before government funding and transfers	\$ 1,099,524	\$ 1,081,273
Adjustments for items affecting net cost of operations but not affecting authorities:		
Amortization of tangible capital assets	(1,258)	(838)
Services provided without charge by other government departments	(7,643)	(7,391)
Decrease (increase) in vacation pay and compensatory leave	(188)	124
Decrease in employee future benefits	145	188
Refunds of previous years' grants and awards	4,420	5,042
Bad debt expense	28	(29)
Loss on disposal of capital assets	-	(5)
Other adjustments	313	56
	<u>(4,183)</u>	<u>(2,853)</u>
Adjustments for items not affecting net cost of operations but affecting authorities:		
Acquisition of tangible capital assets	1,762	2,827
Increase in prepaid expenses	58	83
	<u>1,820</u>	<u>2,910</u>
Current year authorities used	\$ 1,097,161	\$ 1,081,330

(b) Authorities provided and used

(in thousands of dollars)

	<u>2018</u>	<u>2017</u>
Authorities provided:		
Vote 1 - Operating expenditures	\$ 56,746	\$ 52,731
Vote 5 - Grants	1,035,848	1,024,787
Statutory amounts	5,775	5,676
Less:		
Authorities available for future years	(766)	(1,133)
Frozen authorities	-	(193)
Lapsed: Grants	(442)	(538)
Current year authorities used	\$ 1,097,161	\$ 1,081,330

4. Accounts Payable and Accrued Liabilities

The following table presents details of CIHR's accounts payable and accrued liabilities:

(in thousands of dollars)

	2018	2017
Accounts payable - Other government departments and agencies	\$ 542	\$ 121
Accounts payable - External parties	2,636	940
Total accounts payable	3,178	1,061
Accrued liabilities	4,851	5,179
Total accounts payable and accrued liabilities	\$ 8,029	\$ 6,240

5. Deferred Revenue

Deferred revenue represents the balance at year-end of unearned revenues stemming from amounts received from external parties that are restricted in order to fund the expenditures related to specific research projects and stemming from amounts received for fees prior to services being performed. Revenue is recognized in the period in which these expenditures are incurred or in which the service is performed. Details of the transactions related to this account are as follows:

(in thousands of dollars)

	2018	2017
Opening balance	\$ 4,013	\$ 5,276
Amounts received	2,288	5,601
Revenue recognized	(3,402)	(6,864)
Closing balance	\$ 2,899	\$ 4,013

6. Employee Future Benefits

(a) Pension benefits

CIHR's employees participate in the Plan, which is sponsored and administered by the Government of Canada. Pension benefits accrue up to a maximum period of 35 years at a rate of 2 percent per year of pensionable service, times the average of the best five consecutive years of earnings. The benefits are integrated with the Canada/Québec Pension Plans benefits and they are indexed to inflation.

Both the employees and CIHR contribute to the cost of the Plan. Due to the amendment of the *Public Service Superannuation Act* following the implementation of provisions related to the *Economic Action Plan 2012*, employee contributors have been divided into two groups – Group 1 relates to existing plan members as of December 31, 2012 and Group 2 relates to members joining the Plan as of January 1, 2013. Each group has a distinct contribution rate.

The 2017-18 expense amounts to \$3,928,059 (\$3,954,750 in 2016-17). For Group 1 members, the expense represents approximately 1.01 times (1.12 times in 2016-17) the employee contributions and, for Group 2 members, approximately 1.00 times (1.08 times in 2016-17) the employee contributions.

CIHR's responsibility with regard to the Plan is limited to its contributions. Actuarial surpluses or deficiencies are recognized in the financial statements of the Government of Canada, as the Plan's sponsor.

(b) Severance benefits

Severance benefits provided to the Department's employees were previously based on an employee's eligibility, years of service and salary at termination of employment. However, since 2011 the accumulation of severance benefits for voluntary departures progressively ceased for substantially all employees. Employees subject to these changes were given the option to be paid the full or partial value of benefits earned to date or collect the full or remaining value of benefits upon departure from the public service. By March 31, 2018, all settlements for immediate cash out were completed. Severance benefits are unfunded and, consequently, the outstanding obligation will be paid from future authorities.

The changes in the obligations during the year were as follows:

(in thousands of dollars)

	2018	2017
Accrued benefit obligation – Beginning of year	\$ 885	\$ 1,073
Expense for the year	30	1
Benefits paid during the year	(175)	(189)
Accrued benefit obligation – End of year	\$ 740	\$ 885

7. Accounts Receivable and Advances

The following table presents details of CIHR's accounts receivable and advances balances:

(in thousands of dollars)

	2018	2017
Receivables - Other government departments and agencies	\$ 519	\$ 895
Receivables - External parties	671	1,560
Accountable advances	1	1
	1,191	2,456
Allowance for doubtful accounts on receivables from external parties	(23)	(69)
Net accounts receivable	\$ 1,168	\$ 2,387

8. Tangible Capital Assets

(in thousands of dollars)

Capital asset class	Cost				Accumulated amortization				Net book value	
	Opening balance	Acquisitions	Disposals and write-offs	Closing balance	Opening balance	Amortization	Disposals and write-offs	Closing balance	2018	2017
Informatics hardware	1,997	15	(313)	1,699	1,201	256	(313)	1,144	555	796
Informatics software	18,179	1,457	(10)	19,626	12,672	988	(10)	13,650	5,976	5,507
Office equipment	140	10	-	150	69	14	-	83	67	71
Vehicles	28	-	(28)	-	28	-	(28)	-	-	-
Assets under construction	175	280	-	455	-	-	-	-	455	175
Total	\$ 20,519	\$ 1,762	\$ (351)	\$ 21,930	\$ 13,970	\$ 1,258	\$ (351)	\$ 14,877	\$ 7,053	\$ 6,549

Amortization expense for the year ended March 31, 2018 is \$1,257,854 (2017 – \$837,705).

9. Contractual Obligations

The nature of CIHR's activities can result in some large multi-year contracts and obligations whereby CIHR will be obligated to make some future payments in order to carry out its grants and awards payment programs or when the services/goods are received. Significant contractual obligations that can be reasonably estimated are summarized as follows:

(in thousands of dollars)

Contractual Obligations	2019	2020	2021	2022	2023 and thereafter	Total
Grants and awards	\$ 927,250	700,084	506,420	340,205	277,852	\$ 2,751,811
Operating expenditures	4,892	399	122	49	66	5,528
Total	\$ 932,142	700,483	506,542	340,254	277,918	\$ 2,757,339

10. Contingent Liabilities

CIHR may be subject to claims and litigation in the normal course of business. In management's view, there are currently no such claims with a material impact on the financial statements and, consequently, no provision has been made.

11. Related Party Transactions

CIHR is related as a result of common ownership to all government departments, agencies and Crown corporations. CIHR enters into transactions with these entities in the normal course of business and on normal trade terms. During the year, CIHR received common services which were obtained without charge from other government departments as disclosed below.

(a) Common services provided without charge by other government departments

During the year, CIHR received services without charge from certain common service organizations, related to accommodation and the employer's contribution to the health and dental insurance plans. These services provided without charge have been recorded in CIHR's Statement of Operations and Departmental Net Financial Position as follows:

(in thousands of dollars)

	2018	2017
Accommodation provided by Public Services and Procurement Canada	\$ 3,654	\$ 3,697
Employer's contribution to the health and dental insurance plans provided by Treasury Board Secretariat	3,989	3,694
Total	\$ 7,643	\$ 7,391

The Government has centralized some of its administrative activities for efficiency, cost-effectiveness purposes and economic delivery of programs to the public. As a result, the Government uses central agencies and common service organizations so that one department performs services for all other departments and agencies without charge. The costs of these services, such as the payroll and cheque issuance services provided by Public Services and Procurement Canada, are not included in CIHR's Statement of Operations and Departmental Net Financial Position.

(b) Administration of programs on behalf of other government departments

Under a memorandum of understanding signed with the Natural Sciences and Engineering Research Council (NSERC) and the Social Sciences and Humanities Research Council (SSHRC), CIHR administers funds for the Vanier Canada Graduate Scholarship and Banting Postdoctoral Fellowship programs. During the year, CIHR administered \$22,810,734 (\$22,446,004 in 2016-17) in funds for grants and awards on behalf of NSERC and SSHRC. These expenses are reflected in the financial statements of NSERC and SSHRC and are not recorded in these financial statements.

12. Segmented Information

Presentation by segment is based on CIHR's program alignment architecture. The presentation by segment is based on the same accounting policies as described in the Summary of Significant Accounting Policies in note 2. The following table presents the expenses incurred and revenues generated for the main programs, by major object of expense and by major type of revenue. The segment results for the period are as follows:

(in thousands of dollars)

	2018			2017	
	Investigator- Initiated Health Research	Priority-Driven Health Research	Internal Services	Total	Total
Transfer payments					
Grants and Awards	\$ 706,852	\$ 331,956	\$ -	\$ 1,038,808	\$ 1,031,113
Refunds of previous years' grants and awards	(3,798)	(622)	-	(4,420)	(5,042)
Total transfer payments	703,054	331,334	-	1,034,388	1,026,071
Operating Expenses					
Salaries and employee benefits	14,593	14,203	23,216	52,012	47,453
Professional and special services	1,437	364	2,552	4,353	4,493
Accommodation	721	1,009	1,925	3,655	3,697
Travel	3,097	741	233	4,071	1,896
Rentals	208	35	1,028	1,271	1,216
Furniture, equipment and software	78	2	564	644	1,074
Communication	34	30	971	1,035	1,056
Amortization of tangible capital assets	-	-	1,258	1,258	838
Utilities, materials and supplies	23	11	104	138	207
Other	-	-	101	101	136
Total operating expenses	20,191	16,395	31,952	68,538	62,066
Total expenses	723,245	347,729	31,952	1,102,926	1,088,137
Revenues					
Donations for health research	507	2,895	-	3,402	6,864
Total revenues	507	2,895	-	3,402	6,864
Net cost from continuing operations	\$ 722,738	\$ 344,834	\$ 31,952	\$ 1,099,524	\$ 1,081,273